

factor as defined in Chapter 7. This is done by multiplying the trend factor in order to trend costs forward from the mid-point of the cost report period to the mid-point of the payment period.

3. Determine the ceiling for administrative and operating costs for each classification as follows:

- A. Prepare an array for each nursing facility classification. Each array should include the facility names, their associated trended administrative and operating costs, and their annualized total patient days.
- B. Arrange the data in each array from lowest to highest cost.
- C. Add to each array the cumulative annualized total patient days by adding in succession the days listed for each facility.
- D. Determine the median patient days by multiplying the total cumulative patient days by fifty percent (50%) and locate the median patient days on each array.
- E. Determine the median costs by matching the median patient days to the associated costs. This may require interpolation.

---

TN NO	<u>97-04</u>	DATE RECEIVED	<u>7/31/97</u>
	<u>SUPERSEDES</u>	DATE APPROVED	<u>8/14/97</u>
TN NO	<u>96-09</u>	DATE EFFECTIVE	<u>7/1/97</u>

F. The cost at the median patient day is multiplied by 109% to determine the ceiling for each classification.

4. Determine the per diem rate for each facility for administrative and operating costs. If the facility's administrative and operating cost is above the ceiling, its administrative and operating rate is the ceiling. If the facility's cost falls below the ceiling, then its administrative and operating rate is its trended cost plus seventy-five percent (75%) of the difference between the greater of the trended cost or the median and the ceiling.

E. Property Payment. A per diem payment will be made for property costs based on a fair rental system. The amount of the payment is determined as follows:

1. A new facility constructed on January 1, 1992 is assumed to have a per bed value of \$25,908. The value of new construction will be indexed each year using the RS Means Construction Cost Index. The new bed value will be indexed each year to January 1 of the payment year. The cost index

---

TN NO	99-14	DATE RECEIVED	2/11/00
	SUPERSEDES	DATE APPROVED	MAY 08 2000
TN NO	97-04	DATE EFFECTIVE	JAN 01 2000

will be estimated using a five year moving average of the most recent cost indices for Jackson, MS. For example, in computing the rates for the year January 1, 2001 through December 31, 2001, the new bed value will be indexed to January 1, 2001 using the estimated index.

2. The fair rental system establishes a facility's value based on its age. The older the facility, the less its value. Additions, replacements, and renovations will be recognized by lowering the age of the facility and, thus, increasing the facility's value. Facilities, one year or older, will be valued at the new construction bed value less depreciation of 1% per year according to the age of the facility. Facilities will not be depreciated to an amount less than seventy percent (70%) of the new construction bed value. For sales of assets closed on or after July 1, 1993, there will be no recapture of depreciation.

- a. Addition of Beds. The addition of beds will require a computation of the weighted average age of the facility based on the construction dates of

TN NO	<u>99-14</u>	DATE RECEIVED	<u>2/11/00</u>
	SUPERSEDES	DATE APPROVED	<u>MAY 08 2000</u>
TN NO	<u>93-08</u>	DATE EFFECTIVE	<u>JAN 01 2000</u>

the original facility and the additions. For example, a 60 bed facility that was constructed in 1977 and constructed 60 additional beds in 1982 would have its weighted average age (compared to 1992) calculated as follows:

Construction Year	Age	Beds	Age X Beds
1977	15	60	900
1982	10	60	600
Total		120	1,500

- Weighted Average Age =  $1,500 / 120 = 12.50$  years

If the new bed value of a facility in 1992 is \$25,908 and it is depreciated at 1% per year for an age of 12.50 years, then the facility's fair rental value would be \$22,670 per bed ( $\$25,908 \times .875$ ), or a total of \$2,720,400 for fiscal year 1992.

The increase or decrease in the number of certified beds that does not result in a change of classification will be reflected in the facility rate for the next quarter after the Division of Medicaid is notified of the change in the number of

---

TN NO 93-08  
SUPERSEDES  
TN NO 79-06

DATE RECEIVED APR 11 1995  
DATE APPROVED  
DATE EFFECTIVE JUL 01 1993

certified beds if the Division of Medicaid receives the notification from the certifying agency on or before the first day of the month preceding the effective date of the quarterly rate change. For example, a facility increases its number of Medicaid beds from 100 to 110 effective August 1, 1993. The rate of the facility would reflect 100 beds for the period July 1, 1993 through September 30, 1993. The rate would reflect 110 beds for the period October 1, 1993 through December 31, 1993. If the change in the number of beds had been effective September 1, 1993 and the Division of Medicaid did not receive notification until September 15, 1993, the increase would be reflected in the rate effective January 1, 1994.

The addition of beds is often a result of the conversion of non-Medicaid-certified nursing facility beds other than hospital beds, ex. personal care beds. The added beds will be aged using the aging calculation made at start-up of the fair rental system for the converting beds. The cost of renovations or major improvements after start-up and before conversion will be considered in determining the age of the beds upon conversion if the facility provides documentation as described elsewhere in the plan at the time of conversion.

When Medicaid-certified beds are added to the facility as a result of the conversion of hospital beds, the converted beds will be assigned the average age of the Medicaid-certified beds calculated for start-up of the fair rental system. The cost of renovations or major improvements after start-up and before conversion will be considered in determining the age of the beds upon conversion if the facility provides documentation as described elsewhere in the plan at the time of conversion. Direct hospital costs will not be considered.

- b. Replacement of Beds. The replacement of existing beds will also result in an adjustment to the age of the facility. A weighted average age will be calculated according to the year of initial construction and the year of bed replacement. This differs from the addition of beds in that a certain number of beds have replaced those that were

TN NO 93-08  
 SUPERSEDES  
 TN NO 79-06

DATE RECEIVED APR 11 1995  
 DATE APPROVED APR 11 1995  
 DATE EFFECTIVE JUL 01 1993

initially constructed. If a facility has a series of additions or replacements, it is assumed that the oldest beds are the ones being replaced. For example, a 120 bed facility constructed in 1978 that replaced 60 beds in 1988 would have their weighted average age computed as follows in 1993:

Construction Year	Age	Beds	Age X Beds
1978 (initial beds remaining)	15	60	900
1988 (beds replaced)	5	60	300
Total		120	1,200

Weighted Average Age =  $1,200 / 120 = 10.00$  years

The replacement of 60 beds in 1988 reduced the age of the facility by 5 years, from 15 years to 10 years. Assuming a new bed value of \$26,300, depreciated at 1% per year for an age of 10.00 years, the facility's fair rental value would be \$23,670 per bed (\$26,300 X 90%), or a total of \$2,840,400 for fiscal year 1993.

c. Renovations or Major Improvements.

Renovations or major improvements are difficult to factor into the age of the facility because ordinarily they cannot be associated with particular beds. The cost of

TN NO 93-08  
SUPERSEDES  
TN NO 79-06

DATE RECEIVED  
DATE APPROVED APR 11 1995  
DATE EFFECTIVE JUL 01 1993

renovation or improving the facility will be calculated as a bed replacement, described above. To qualify as a bed replacement, the cost of the renovation/improvement must be equal to or greater than the cost of constructing one nursing facility bed in the year in which the renovation takes place. For example, a renovation/improvement in 1993 must cost at least \$26,300 for it to qualify as a bed replacement.

Renovation/improvement costs must be documented through cost reports, depreciation schedules, construction receipts, or other means. Costs must be capitalized in order to be considered a renovation or major improvement. In facilities with distinct parts, purchases not solely related to the certified beds for the classification being considered will be allocated between the certified beds for the classification being considered and the other beds in the facility. The allocation will be based on the number of beds in the classification being considered to total facility

---

TN NO	93-08
	<u>SUPERSEDES</u>
TN NO	<u>79-06</u>

DATE RECEIVED	
DATE APPROVED	<u>APR 11 1995</u>
DATE EFFECTIVE	<u>JUL 01 1993</u>

beds at year end. The portion allocated to the classification being considered must be equal to or greater than the new bed value determined for the year of purchase in order to be considered for a renovation/improvement. Assets purchased for use solely by the portion of the facility other than the classification being considered will not be considered for renovations/improvements for the Medicaid certified beds.

In establishing the age of a facility renovations/improvements are converted into bed replacements by dividing their total cost by the new construction cost for a nursing facility bed in the year of renovation/improvement. For example, if a renovation costing \$200,000 takes place in 1993, its bed replacement equivalent is  $\$200,000 / \$26,300 = 7.60$  beds. The bed replacement equivalents will be rounded to the next highest integer ( $7.60 = 8$ ).

For example, a 120 bed facility constructed in 1978 might have undertaken two renovations: \$200,000 in

---

TN NO	<u>93-08</u>	DATE RECEIVED	<u>APR 11 1995</u>
	SUPERSEDES	DATE APPROVED	<u>APR 11 1995</u>
TN NO	<u>79-06</u>	DATE EFFECTIVE	<u>JUL 01 1993</u>



1983 and \$200,000 in 1993. The bed replacement equivalent of these renovations would be 9 beds and 8 beds respectively. The weighted average for this facility would be calculated as follows:

Construction Year	Age 1/01/95	Beds	Age X Beds
1978 (initial beds remaining)	17	103	1,751
1983 (bed replacement equivalent)	12	9	108
1993 (bed replacement equivalent)	2	8	16
Total		120	1,875

Weighted Average Age =  $1,875 / 120 = 15.63$  years

The renovations reduced the age of the facility by 1.37 years, from 17 to 15.63. Assuming a 1995 new bed value of \$27,604, depreciated at 1% per year for an age of 15.63 years, the facility's fair rental value would be \$23,289 per bed ( $\$27,604 \times .8437$ ), for a total of \$2,794,680 for rate period fiscal year 1995.

Beds constructed after the cost report year will be considered to have a zero (0) age for rate setting purposes. All beds will be aged by one (1) year at each December 31.

TN NO 93-08  
SUPERSEDES  
TN NO 79-06

DATE RECEIVED  
DATE APPROVED APR 11 1995  
DATE EFFECTIVE JUL 01 1993

- d. Start Up of Fair Rental System. To start up the fair rental system, each facility's bed values must be determined based on the age of the facility. The determination will include setting a value for the original construction of beds with adjustments for any additions, bed replacements, and renovations/improvements. For determination of bed values for use in determining the FY 1994 rate, the procedures described above for determining the values of original beds, additions, and replacements will be used.

However, for start-up purposes only, the cost of renovation or improving the facility will be calculated as having brought a portion of old beds up to new bed value in the year of renovation, not as bed replacement. To qualify as a renovation/improvement which affects the age of the facility, the cost of the renovation/improvement must be equal to or greater than \$25,908. Renovation/improvement costs must be documented through cost reports, depreciation schedules, construction

---

TN NO 93-08  
SUPERSEDES  
TN NO 79-06

DATE RECEIVED  
DATE APPROVED APR 11 1995  
DATE EFFECTIVE JUL 01 1993